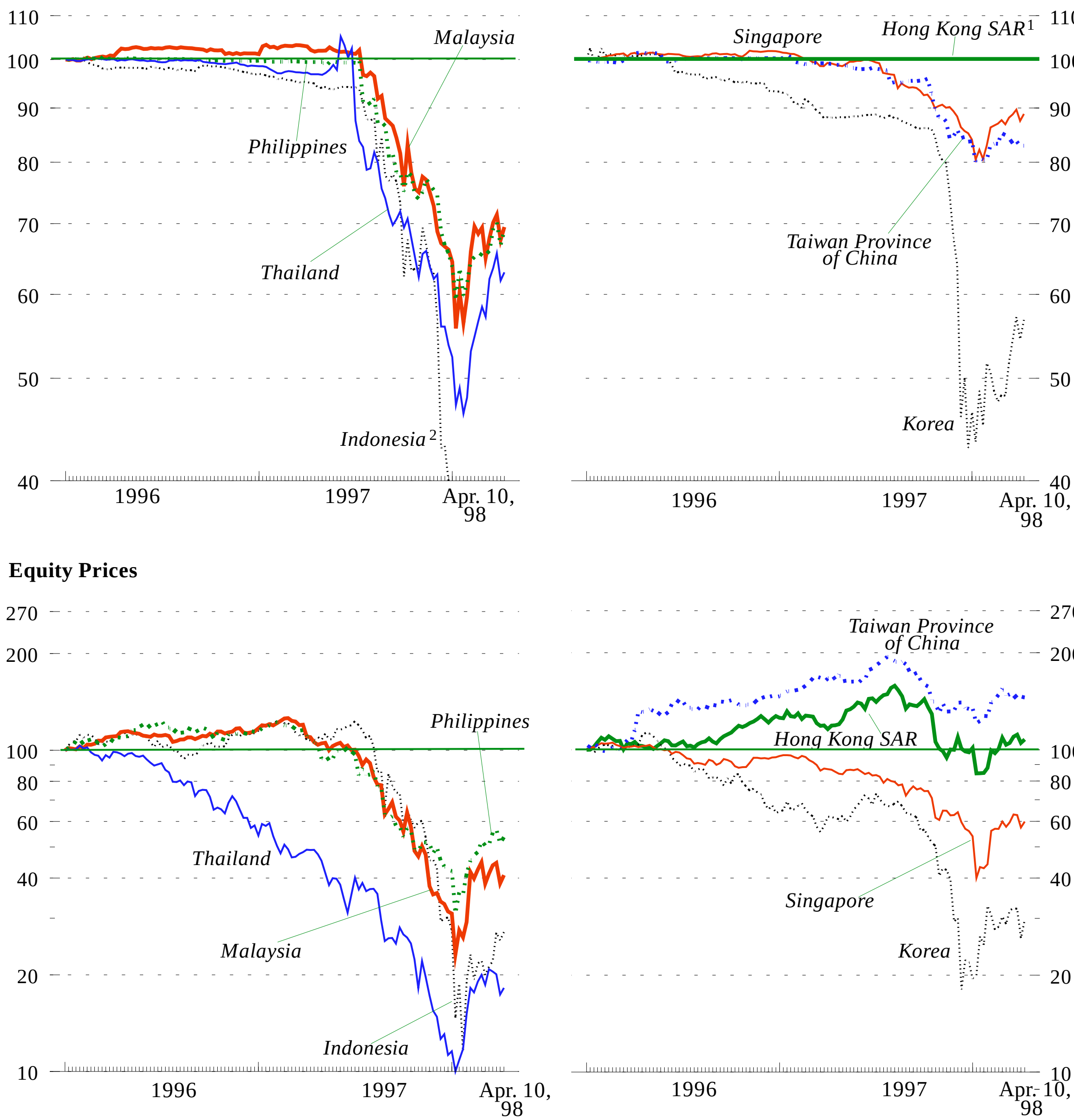
Figure 1. Selected Asian Economies: Bilateral U.S. Dollar Exchange Rates and Equity Prices

(In U.S. dollars per currency unit; logarithmic scale; January 5, 1996 = 100)

Bilateral U.S. Dollar Exchange Rates



Source: Bloomberg Financial Markets, LP; International Finance Corporation; and Reuters.

[1]Pegged to U.S. dollar.

[2]The Indonesian currency reached a low of Rp 14,750 per U.S. dollar (a value of 15.5 in the index terms used above) in the week ending January 23, 1998 and recovered to Rp 8,150 (28.1 in index terms) in the week ending April 10, 1998.

Box 1: Commitments of the International Community and Disbursements of the IMF in Response to the Asian Crisis

(in billion U.S. dollars)

	Commitments				IMF Disbursements
Country	IMF [1]	Multilateral [2]	Bilateral	Total	As of 4/10/98
Indonesia	9.9	8.0	18.7	36.6	3.0
Korea	20.9	14.0	23.3	58.2	15.1
Thailand	3.9	2.7	10.5	17.1	2.7
Total	**34.7**	**24.7**	**52.5**	**111.9**	**20.8**

[1] IMF commitments in response to the Asian crisis rise to US$36 billion when commitments to the Philippines in 1997 are included.

[2] World Bank and ADB

Box 2: Thailand

The IMF-Supported Program of Economic Reform

The financial crisis originated in Thailand, with the baht coming under a series of increasingly serious speculative attacks and the markets losing confidence in the economy. On August 20, 1997, the IMF's Executive Board approved financial support for Thailand of up to SDR 2.9 billion or about US$4 billion, equivalent to 505 percent of Thailand's quota[1], over a 34-month period.

The initial program of economic reform featured:

- financial sector restructuring, initially focusing on the identification and closure of unviable financial institutions (including 56 finance companies), intervention in the weakest banks, and the recapitalization of the banking system;

- fiscal measures equivalent to about 3 percent of GDP to correct the public sector deficit to a surplus of 1 percent of GDP in 1997/98, support the necessary improvement in the current account position, and provide for the costs of financial restructuring, including an increase in the VAT tax rate from 7 to 10 percent;

- a new framework for monetary and exchange rate policy, featuring a managed float for the baht; and

- structural initiatives to increase efficiency, deepen the role of the private sector in the Thai economy, and reinforce its outward orientation, including civil service reform, privatization, and initiatives to attract foreign capital.

The program was modified in a Letter of Intent on November 25, 1997, in light of the facts that the economy had slowed down more than anticipated and there were severe adverse regional economic developments. The modifications included:

- additional actions to prevent a deterioration in the fiscal position;

- establishment of a specific timetable for implementing financial sector restructuring, including strategies for the preemptive recapitalization and strengthening of the financial system; and

- acceleration of plans to protect the weaker sectors of society.

The program was further modified in a Letter of Intent on February 24, 1998, to give clear priority to stabilizing quickly the exchange rate while limiting the magnitude and negative social impact of the larger-than-expected economic downturn, and to set the stage for Thailand's return to the international financial markets. Among the modifications were:

- accelerating financial system restructuring, including the phasing in of the privatization of the intervened banks;
- adjusting fiscal policy targets from a targeted public sector surplus of about 1 percent of GDP to a deficit of 2 percent of GDP in response to the weaker economic activity and larger-than-anticipated improvement in the current account, in part to finance higher social spending;
- ensuring an adequate availability of credit to the economy to lead to economic recovery, while maintaining a tight monetary stance;
- strengthening the social safety net; and
- further deepening the role of the private sector, including initiatives to attract foreign capital.

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[1] A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to IMF financing, and its share in the allocation of SDRs.

Chronological Highlights

1997

August 11	The IMF convenes meeting of interested countries in Tokyo; total support pledged for Thailand eventually reaches about US$17 billion. (News Brief No. 97/17)
August 20	The Executive Board approves a US$4 billion stand-by credit for Thailand, and releases a disbursement of US$1.6 billion. (Press Release No. 97/37)
October 17	The Executive Board reviews the stand-by arrangement under the emergency financing mechanism procedures.
November 25	Thailand issues Letter of Intent on additional measures.
December 8	The Executive Board completes the first review of the stand-by arrangement and disburses US$810 million. (News Brief No. 97/29)

1998

February 24	Thailand issues Letter of Intent on additional measures.
March 4	The Executive Board completes the second review of the stand-by arrangement and disburses US$270 million. (News Brief No. 98/5)

Tentative Schedule of Forthcoming Reviews

May 1998	Third review of the stand-by arrangement, with the scheduled release of US$135 million upon its successful completion, with subsequent reviews on a quarterly basis.

Selected Economic Indicators

	1995	1996	1997*	1998**
		(percent change)		
Real GDP growth	8.7	5.5	-0.4	-3.0
Consumer prices (end of period)	7.1	4.8	7.7	10.6
		(percent of GDP; a minus signifies a deficit)		
Central government balance	2.5	2.4	-1.0	-1.6
Current account balance	-8.0	-8.1	-2.0	3.9
		(billion U.S. dollars)		
External debt	82.6	90.6	91.8	85.9

Sources: Thai authorities; and IMF staff estimates
* Estimate
**Program

Box 3: Indonesia

The IMF-Supported Program of Economic Reform

The shift in financial market sentiment that originated in Thailand exposed structural weaknesses in Indonesia's economy, notably the large amount of short-term foreign debt owed by the private corporate sector. On November 5, 1997 the IMF's Executive Board approved financial support of up to SDR 7.3 billion or about US$10 billion, equivalent to 490 percent of Indonesia's quota, over the next three years.

The initial program of economic reform envisaged:

- financial sector restructuring, including closing unviable institutions, merging state banks, and establishing a timetable for dealing with remaining weak institutions and improving the institutional, legal, and regulatory framework for the financial system;

- structural reforms to enhance economic efficiency and transparency, including liberalization of foreign trade and investment, dismantling of domestic monopolies, and expanding the privatization program;

- stabilizing the rupiah via the retention of a tight monetary policy and a flexible exchange rate policy; and

- fiscal measures equivalent to about 1 percent of GDP in 1997/98 and 2 percent in 1998/99, to yield a public sector surplus of 1 percent of GDP in both periods, to facilitate external adjustment and provide resources to pay for financial restructuring. The fiscal measures included cutting low priority expenditures, including postponing or rescheduling major state enterprise infrastructure projects; removing government subsidies; eliminating VAT exemptions, and adjusting administered prices, including the prices of electricity and petroleum products.

Against a background of continuing loss of confidence in the Indonesian economy and further sharp declines in the value of the rupiah, the Indonesian authorities announced a reinforcement and acceleration of the program in **the Memorandum of Economic and Financial Policies issued on January 15, 1998.** Key reinforcing measures included:

- adjustments to the 1998/99 budget that would result in a public sector deficit of about 1 percent of GDP, in order to accommodate part of the impact on the budget of the economic slowdown;

- the cancellation of 12 infrastructure projects and the revoking or discontinuation of privileges for the IPTN's airplane projects and the National Car project;.

- further bank and corporate sector restructuring, including the subsequent announcement of a process to put in place a framework for creditors and debtors to deal on a voluntary, case-by-case basis with the external debt problems of Indonesian corporations; the establishment of the Indonesian Bank Restructuring Agency (IBRA); and a government guarantee on bank deposits and credits;

- limiting the monopoly of the national marketing board (BULOG) to rice, deregulating domestic trade in agricultural produce, and eliminating restrictive market arrangements; and

- measures to alleviate the suffering cause by the drought, including ensuring that adequate food supplies are available at reasonable prices.

Due to policy slippages and other developments, the rupiah failed to stabilize, inflation picked up sharply, and economic conditions deteriorated. The government issued a **Supplementary Memorandum of Economic and Financial Policies on April 10, 1998,** adapting the macroeconomic policies to the deteriorated economic situation and expanding the structural and banking reforms agreed in January. The envisaged measures included:

- a strong monetary policy to ensure stabilization of the rupiah;
- accelerated bank restructuring, with IBRA to continue its take-over or closure of weak or unviable institutions and be empowered to issue bonds to finance the restoration of financial viability to qualified institutions; the elimination of existing foreign ownership restrictions on banks; and the issuance of a new bankruptcy law;
- a comprehensive agenda of structural reforms to increase competition and efficiency in the economy, reinforcing the commitments made in January and including the further privatization of six major state enterprises and the identification of seven new enterprises for privatization in 1998/99;
- accelerated arrangements to develop a framework with foreign creditors to restore trade financing and to resolve the issues of corporate debt and interbank credit;
- strengthening the social safety net through support for small and medium-sized enterprises and through public works programs; and
- enhancing the implementation and credibility of the program through daily monitoring by the Indonesian Executive Committee of the Resilience Council, in close cooperation with the IMF, the World Bank, and the ADB; substantive actions prior to approval of the program by the IMF Executive Board, and frequent program reviews by the IMF Executive Board.

Chronological Highlights

1997

October 8	The IMF announces support for Indonesia's intention to seek support from the IMF and other multilateral institutions (News Brief No. 97/19)
November 5	The Executive Board approves a US$10 billion stand-by credit for Indonesia and releases a disbursement of US$3 billion (Press Release No. 97/50)

1998

Mid-January	IMF Management visit Jakarta to consult with President Suharto on an acceleration of reforms already agreed under the program, after further depreciation of the rupiah. (News Brief No. 98/2)
January 15	Indonesia issues Memorandum of Economic and Financial policies on additional measures.
January 26	The IMF welcomes Indonesia's plans for a comprehensive program of the rehabilitation of the banking sector and putting into place a framework for creditors and debtors to deal, on a voluntary and case-by-case basis, with the external debt problems of corporations. (News Brief No. 98/4)
April 10	Indonesia issues a Supplementary Memorandum of Economic and Financial Policies on additional measures. (News Brief No. 98/10)

Tentative Schedule of Forthcoming Reviews

To be announced	First review of the stand-by arrangement, with a possible disbursement of IMF resources if agreed prior actions have been implemented, and frequent program reviews thereafter.

Selected Economic Indicators

	1995	1996	1997*	1998**
		(percent change)		
Real GDP growth	8.2	8.0	4.6	-5.0
Consumer prices (end of period)	9.2	5.3	38.4	45.0
		(percent of GDP; a minus sign signifies a deficit)		
Central government balance	0.9	1.2	0.8	-3.8
Current account balance	-3.2	-3.3	-1.2	2.7
		(billion U.S. dollars)		
External debt	106.5	113.3	119.6	112.8

Sources: Indonesian authorities; and IMF staff estimates
* Estimate
*Program

Box 4: Korea

The IMF-Supported Program of Economic Reform

Over the past several decades, Korea transformed itself into an advanced industrial economy. However, the financial system had been weakened by government interference in the economy and by close linkages between banks and conglomerates. Amid the Asian financial crisis, a loss of market confidence brought the country perilously close to depleting its foreign exchange reserves. On December 4, 1997 the IMF's Executive Board approved financing of up to SDR 15.5 billion or about US$21 billion, equivalent to 1,939 percent of Korea's quota, over the next three years.

The initial program of economic reform featured:

- comprehensive financial sector restructuring that introduced a clear and firm exit policy for financial institutions, strong market and supervisory discipline, and independence for the central bank. The operations of nine insolvent merchant banks were suspended; two large distressed commercial banks received capital injections from the government, and all commercial banks with inadequate capital were required to submit plans for recapitalization;

- fiscal measures equivalent to about 2 percent of GDP to make room for the costs of financial sector restructuring in the budget, while maintaining a prudent fiscal stance. Fiscal measures include widening the bases for corporate, income, and VAT taxes;

- efforts to dismantle the nontransparent and inefficient ties among the government, banks, and businesses, including measures to upgrade accounting, auditing, and disclosure standards, require that corporate financial statements be prepared on a consolidated basis and certified by external auditors, and change the system of cross guarantees within conglomerates;

- trade liberalization measures, including setting a timetable in line with WTO commitments to eliminate trade-related subsidies, restrictive import licensing, and the import diversification program, as well as streamlining and improving transparency of import certification procedures;

- capital account liberalization measures to open up the Korean money, bond, and equity markets to capital inflows, and to liberalize foreign direct investment;

- labor market reform to facilitate the redeployment of labor; and

- the publication and dissemination of key economic and financial data.

As described in a Letter of Intent on December 24, 1997, the program was intensified and accelerated as the financial crisis in Korea worsened and concerns about whether international banks would roll over Korean short-term external debt placed additional pressures on international reserves and the won. The revised measures, whose announcement was followed by a significant voluntary increase in rollovers and extension of claims by international bank creditors on Korean financial institutions, included:

- further monetary tightening and the abolition of the daily exchange rate band;

- speeding up the liberalization of capital and money markets, including the lifting of all capital account restrictions on foreign investors' access to the Korean bond market by December 31, 1997;

- accelerating the implementation of the comprehensive restructuring plan for the financial sector, including establishing a high-level team to negotiate with foreign creditors and reducing the recourse of Korean banks to the central bank; and

- speeding up trade liberalization measures, including making binding under the WTO the liberalization of financial services as agreed with the OECD.

In a Letter of Intent on February 7, 1998, amid the encouraging results from the strengthened economic program, which included an agreement with a group of foreign creditor banks on a voluntary restructuring of Korea's short-term debt on January 28, 1998 and the establishment of the Tripartite Accord between labor, business, and government concerning social issues on February 5, the macroeconomic framework was revised and the policies that the government intended to pursue for 1998 were set out. The measures included:

- targeting a fiscal deficit of around 1 percent of GDP for 1998 to accommodate the impact of weaker economic activity on the budget and to allow for higher expenditure on the social safety net;

- moving forward to implement a broader strategy of financial sector restructuring, having contained the immediate dangers of disruptions to the financial system;

- increasing the range and amounts of financial instruments available to foreign investors, increasing the access of Korean companies to foreign capital markets, and liberalizing the corporate financing market (e.g., mergers and acquisitions); and

- introducing a number of measures to improve corporate transparency, including strengthening the oversight functions of corporate boards of directors, increasing accountability to shareholders, and introducing outside directors and external audit committees.

Chronological Highlights

1997

November 21	The IMF welcomes Korea's request for IMF assistance. (News Brief No. 97/25)
December 3	The IMF notes the successful conclusion of discussions with Korea and the pledges of support coming from the World Bank, ADB, and countries in the group of potential participants in the supplemental financing support package for Korea.
December 4	The IMF Executive Board approves a US$21 billion stand-by credit for Korea, and releases a disbursement of US$5.6 billion. (Press Release No. 97/55)
December 18	The IMF Executive Board concludes the first biweekly review of the stand-by arrangement and releases a further US$3.5 billion, activating the IMF's new Supplemental Reserve Facility. (News Brief No. 97/30)
December 24	Korea issues a Letter of Intent, concerning intensification and acceleration of its program. The IMF Managing Director announces his intention to recommend to the Executive Board a significant acceleration of the resources available to Korea, in light of Korea's Letter of Intent and in the context of the progress between Korean and international banks in dealing with Korea's external debt, and notes that the World Bank and ADB will disburse a total of US$5 billion and the group of potential participants in the supplemental financing support package for Korea will disburse US$8 billion. (News Brief No. 97/32)

December 30	The Executive Board approves the request by Korea for modification of the schedule of purchases, bringing forward part of the amounts originally scheduled for February and May 1998, but without changing overall access to Fund resources, and disburses US$2 billion to Korea.

1998

January 7	Korea issues a memorandum on the economic program regarding the Letter of Intent issued on December 24, providing additional details on policy intentions.
January 8	The IMF Executive Board concludes the second biweekly review of the stand-by arrangement and disburses US$2 billion.
February 7	Korea issues a Letter of Intent on additional measures.
February 17	The Executive Board completes the first quarterly review of the stand-by arrangement and disburses a further US$2 billion.

Tentative Schedule of Forthcoming Reviews

May 1998	Second review of the stand-by arrangement, with the scheduled release of US$1.9 billion upon its successful completion, with subsequent reviews on a quarterly basis through 1998 and semi-annually thereafter.

Selected Economic Indicators

	1995	1996	1997*	1998**
		(percent change)		
Real GDP growth	8.9	7.1	5.5	-0.8
Consumer prices (end of period)	4.7	4.9	6.6	7.4
		(percent of GDP; a minus sign signifies a deficit)		
Central government balance	0.3	0.3	-0.4	-2.0
Current account balance	-2.0	-4.9	-2.0	4.8
		(billion U.S. dollars)		
External debt	...	160.7	154.4	171.4

Sources: Korean authorities; and IMF staff estimates
* Estimate
**Program

Box 5: Three Major Misunderstandings about the IMF-Supported Programs in Asia

1. *The IMF failed to predict the financial crisis in Asia and this proves its surveillance methods don't work.*

Fact: It is true that the IMF, along with everyone else, did not foresee the scale of the financial contagion that followed the events in Thailand. The events in Thailand, however, were well-anticipated. Indeed, the IMF stressed the unsustainability of the country's policies and pressed for urgent action in a continuous dialogue with the Thai authorities during the 18 months leading up to the floating of the baht last July. However, the IMF can only advise, not force governments to take steps. Moreover, the IMF's own wish for transparency must be balanced against the facts that the Fund's ability to conduct its surveillance of members depends on its privileged access to information, and it cannot go so far in speaking out as to create the crises that it is seeking to prevent.

2. *The IMF-supported programs are structured wrong. On one hand, the programs feature austerity measures, including high interest rates, that are inappropriate. On the other hand, they overlook the private sector debt problems that were at the heart of the crisis.*

Fact: While an increase in interest rates has been a part of the countries' economic programs, the details of the programs (which are available on the IMF website) indicate that the centerpiece of each program is a set of forceful, far-reaching financial and structural reforms, not austerity measures to restore macroeconomic balance. While the longer-run recessionary effects of higher interest rates are recognized, the experiences of countries whose currencies have come under attack overwhelmingly show that making the currency more attractive to hold by temporarily raising interest rates has been a successful strategy.

Regarding private sector debt, the IMF is empowered by its membership to deal with sovereign governments, not directly with the diverse and dispersed private sector agents who compose the debtors and creditors of Indonesia, Korea, and Thailand. The IMF becomes involved, either directly or behind the scenes, in supporting frameworks to deal with external debt problems that involve the private sector once a consensus on such frameworks emerges among its membership, as was the case in response to the Latin American Debt Crisis of the 1980s. As part of the IMF's immediate objective of restoring confidence to domestic and foreign markets, the IMF has supported the efforts of the affected Asian countries to resolve their external financing problems. The rollover rates for foreign debt have improved to 70 percent in Thailand and over 90 percent in Korea from levels as low as 10-20 percent in the second half of 1997.

3. *The IMF bails out reckless investors, and if that weren't bad enough, in doing so it creates moral hazard and sets the stage for the next crisis.*

Fact: Most investors in Asia, whether local or international, have made substantial losses. For example, a typical foreign owner of Asian equities would have seen the value of his or her investment reduced to only one third to one quarter of what it was before the crisis. While the big international banks may not have experienced such a dramatic fall in the value of their assets, the fourth quarter 1997 earnings reports for many of them indicate that the Asian crisis has been costly. It is true that a byproduct of restoring stability to the financial markets is that banks with short-term claims on financial institutions may be protected from the full consequences of their actions. The IMF has been working for some time to help develop better ways at the international level of associating private sector creditors and investors with official efforts to help resolve sovereign and private sector debt problems.